

# 2007 lakkyara

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**Improving the efficiency  
of information delivery**

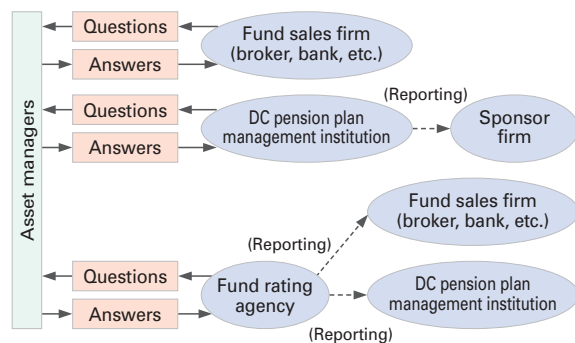
As fund managers strive to enhance communication with the sellers of their products by providing more information, structures capable of delivering this information more efficiently will contribute to the development of a sounder market.

Japan's investment trust business is expanding steadily amid a continuing shift from savings to investment. In addition to the traditional sales channel of securities companies, growth is being driven by new channels targeting individual investors, such as banks and the post office. The adoption of defined-contribution pension plans has also provided an opportunity for many retail investors to learn about investment trusts for the first time.

This expansion of sales channels will ultimately mean more business for the asset managers supplying investment products. At the same time, however, having to deal with a wider range of channels will force them to devote more resources to a number of areas, including the training of sales staff and distribution of promotional materials. This report focuses on the delivery of information to the sellers of these products.

Because there are limits to the information that can be collected through the exchange of written documents, a process is in place by which basic information is collected using questionnaires, with fund managers then being interviewed to obtain a better understanding of the data.

Exhibit. Information delivery process



## Delivering information to sellers

Here, "information delivery" refers specifically to information provided to the fund sales companies that perform due diligence when choosing products to offer and to the pension management institutions that monitor investment trusts for defined-contribution pension plans. Some firms outsource the analysis and assessment of this information to third-party fund rating agencies. For asset managers, dealing with these agencies is as important as providing information to sellers. In addition to helping fund managers fulfill their responsibility to explain their products, this activity plays an important marketing role.

Providing information to these companies involves disclosure of detailed data about the investment process that would not normally be disclosed to ordinary investors.<sup>1)</sup> These data consist of separately prepared answers to questions submitted by each company.<sup>2)</sup>

## Factors contributing to heavy burden

Many of the firms now handling this flow of information are represented by a small group of rating agencies. Still, dealing with them places a heavy burden on asset managers because of the large number of funds involved and the frequency of the requests for information. This burden can be broken down into three components.

The first involves managing the data used in answering the questions. While it has long been recommended that companies build their data management systems around a shared database, in many cases data remain dispersed throughout the company, with individual staff responsible for managing different pieces of the whole. In such an environment, simply collecting data from various sources within the company and maintaining consistency between

them is a major effort. The lack of well-designed data management systems generates a variety of inefficiencies and should be dealt with on a priority basis, in our view.

A second burden is the need to create an internal system for handling data and requests for information. When no one division has a clear responsibility for replying to questions, the job tends to be assigned to the individual possessing the most relevant information. As a result, fund managers themselves are often forced to prepare the answers on top of their usual responsibilities. Reproducibility also suffers when there is no central data management system. In addition to assigning responsibility for the data itself, therefore, companies need to clarify who is responsible for various related tasks.

The third burden involves the process of inputting the collected data into the answer forms. While many of the questions received overlap, the format of the answer varies from company to company, and responding to all of them takes substantial time and effort. While this kind of inefficiency differs somewhat from the first two, it is still a serious problem for managers. Some management firms envision likely questions in advance and develop systems enabling them to bring up common answers easily. But such systems are limited in what they can achieve, and the question remains of how to deal efficiently with those areas that cannot be automated.

### Towards further improvements in operational efficiency

Since the questions received by management firms tend to cover a wide range of material, both quantitative and qualitative, the information needed to answer them may not always be available in internal systems. In some cases information known only to the fund manager must be translated into words or numbers. This represents a different type of burden to the three noted above. Concerns remain about whether fund managers will be able to continue supplying high-quality information if there is significant growth in the number of funds or sales firms requiring information or in the frequency of information delivery.

The last few years have seen an increase in requests for information from banks, which were among the last to start selling investment trusts. At present, banks are simply collecting information on an ad hoc basis when deciding which products to sell. In the future, however, we think they are likely to expand the range of their activities in this area to include continuous monitoring. With follow-up service now receiving as much emphasis as the responsibility to explain products, we think companies' commitment to understanding the investment process at the funds they sell will only strengthen.

For these forward-looking efforts by sales companies to be meaningful, all involved companies must begin doing what they can to create the necessary systems. First, fund managers need to ensure the quality of operations by building data management systems and fine-tuning organizational structures. Efforts are also needed at the industry level, including the rating agencies and the sales firms on the receiving end of the information. For example, it should be possible to enhance administrative efficiency at fund managers by standardizing question items to avoid repetition. For the firms preparing questions as well, we think this would allow the timely collection of basic information and enable them to concentrate on more important issues, including subsequent analysis and interviews.

The creation of an environment allowing efficient communication between asset managers and sales firms will contribute to the development of a sounder market, in our view.

#### Note

1) For example, questions might concern information about the portfolio, such as portfolio weightings and individual holdings, a breakdown of factors contributing to performance, and investment strategy, such as the fund's target return. General information about the fund manager as a business might also be sought.

2) Questions received from ratings agencies or other firms are typically called RFPs (Requests for Proposal) or RFI (Requests for Information).

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